

Recommendation The Beneficiary should enhance the preparation, review and approval processes governing the affiliate transactions. In addition, the Beneficiary should establish an appropriate methodology to record the expense amounts to the appropriate regulated or non-regulated accounts.

Beneficiary Response The Company takes issue with the first item in this finding. The Company notes initially that its parent Company TTI is a holding company whose primary functions are: (1) to search out and evaluate potential investments in a broad range of telecommunications and non-telecommunications businesses; and (b) to make investments if and when they are deemed beneficial and appropriate to TTI and its owners. TTI is clearly and obviously not an affiliate of the Company that exists "solely to provide services to members of the [Company's] corporate family." Therefore, any leases or other services received by the Company from TTI are not governed by the final sentence of Section 32.27(c) (3) of the FCC Rules and are not required to be recorded solely at fully distributed cost.

The Company offered to provide KPMG with data regarding the fair market value of the leases for Vehicles and Other Work Equipment provided by TTI to the Company. However, KPMG refused to accept such data regarding the fair market value of the leases and lease payments.

The Company will provide a more detailed response to the "Lease Payment for Vehicles and Other Work Equipment" item if and when KPMG properly considers fair market value data, and issues a revised Finding.

The Company agrees with the second item in this finding. The Company has implemented procedures to review and approve the account classification of charges between the regulated and nonregulated operations. The second finding was actually discovered by the Company and corrected within 2005, but the Company did fail to reclassify two invoices to the nonregulated operations.

The Company agrees with the third item in this finding. The Company has implemented procedures to review and approve the account classification of vendor invoices. The items identified in the third finding were discovered in 2004 by the Company and corrected on a going forward basis.

The Company has not had sufficient time and has not received documentation from KPMG in adequate enough detail to verify the calculations of the impacts of the second and third items on HCL, LSS or ICLS disbursements.

KPMG Response The parent company TTI provides vehicle and equipment lease services solely to the Beneficiary. KPMG requested TTI and the Beneficiary to provide documentation supporting the fully distributed cost of the Vehicles involved in the lease payments, which they were unable to provide.

In addition, all findings were formally communicated at the end of

been reviewed by NECA at the time it was made. While there was some concern about whether the adjustment to correct prior year deferred taxes was correct, the adjustment was allowed to remain in the cost study. After further discussions with the KPMG tax personnel, it was determined that the adjustment should not have impacted operating tax expense.

The Company has not had sufficient time and has not received documentation from KPMG in adequate enough detail to verify the calculations of the impacts shown in this report on HCL, LSS or ICLS disbursements.

KPMG Response

All findings were formally communicated at the end of fieldwork. Thus, the Beneficiary had over four weeks to review the monetary impacts.

APPENDIX B



High Cost and Low Income Division

By Certified Mail, Return Receipt Requested

October 5, 2010

Debi Nobles
Vice President, Regulatory Affairs
Walnut Hill Telephone Company
505 Plaza Circle, Suite 200
Orange Park, FL 32073

Re: Action to be Taken Resulting from High Cost Audit of Walnut Hill Telephone Company (SAC 401729) Audit Report HC-2009-FL-056, Follow-up Audit to HC-2007-166

Dear Debi Nobles:

A follow-up audit of Walnut Hill Telephone Company for Study Area Code (SAC) 401729 was conducted on behalf of the USAC Internal Audit Division (IAD) and the Federal Communications Commission (FCC) Office of Inspector General (OIG) for the period July 1, 2006 through June 30, 2007. The final report from that follow-up was sent to the company on September 28, 2010.

As is USAC's policy with adverse or disclaimer opinions, the follow-up audit was required to quantify the monetary effect of audit HC-2007-166 conducted by Deloitte & Touche LLP. The effect quantified will result in a recovery of \$1,594,057 of High Cost support for SAC 401729. Please refer to the audit report for details on the funds being recovered. USAC will recover these funds from your December 2010 High Cost support payment, which will be disbursed at the end of January 2011.

Consistent with current administrative practice, if the recovery amount exceeds the company's disbursement for that month, USAC will continue to offset the remaining recovery amount balance against subsequent High Cost support disbursements until such time as the full amount is recovered. If necessary, USAC reserves the right to invoice and collect any remaining amounts owed.

As is the case with any decision of the USF administrator, you have the right to appeal this decision directly to the FCC pursuant to 47 C.F.R. § 54.719. The appeal must be filed within 60 days of the date of this letter as required by 47 C.F.R. § 54.720(a) and must conform to the filing requirements of 47 C.F.R. § 54.721. Additional information about the FCC appeals process may be found at <http://www.usac.org/hc/about/filing-appeals.aspx> under "OPTION B."

Sincerely,

Craig Davis
Director, High Cost

APPENDIX C

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November 29, 2010

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By Electronic Mail

Letter of Appeal
High Cost and Low Income Division
Universal Service Administrative Company
2000 L Street NW, Suite 200
Washington, DC 20036
hcfilings@hcli.universalservice.org

**Re: Walnut Hill Telephone Company
Study Area Code No. 401729
Audit No. HC-2009-FL056, Follow-up Audit to HC 2007-166**

Dear Sir or Madam:

Walnut Hill Telephone Company ("Walnut Hill") hereby appeals Finding 2a of the USAC Management Response, dated August 10, 2010, regarding the referenced Improper Payment Information Act Audit of the High Cost Program of Walnut Hill. Walnut Hill received the USAC High Cost Management Response on October 1, 2010, so that this appeal is timely filed.

Contact Information

The contact information for the Walnut Hill representatives who can most readily discuss this appeal with USAC is:

Deborah Nobles
Townes Telecommunications Services Corporation
505 Plaza Circle, Suite 200
Orange Park, Florida 32073-9409
Telephone: 904-688-0029
Facsimile: 904-688-0025

Email: dnobles@townes.net

and

Benjamin H. Dickens, Jr., Regulatory Counsel
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Decision Appealed

Walnut Hill appeals Finding 2a of the USAC Management Response and the KPMG LLP audit report, dated August 4, 2010, which states: "Twenty six of the 30 exceptions related to lease payments, of \$94,717 per month, for Vehicles and Other Work Equipment, made by the Beneficiary to its parent company (TTI), were unsupported. In addition, these lease payments were not in compliance with FCC Rules and Orders governing affiliate transactions and were determined using a "fair market value" rate, when the Rules require that such transactions be recorded on a fully distributed cost basis. These expenses totaled \$2,117,978: \$1,059,010 for 2004 and \$1,058,968 for 2005."

The USAC Management Response states that: "USAC High Cost management concurs with the auditor. The Carrier does not have documentation consistent with Part 32 rules necessary to support account data reported in its filings with the National Exchange Carrier Association (NECA) and USAC." The USAC Management Response further states: "As directed by the FCC, USAC is obligated to implement all recommendations arising from the audits including recovery of funds that may have been improperly disbursed to beneficiaries. Therefore, USAC will recover High Cost support in the amount of \$447,967."

Walnut Hill appeals these findings and statements with respect to Other Work Equipment. Walnut Hill also appeals the USAC determination to recover that portion of the \$447,967 associated with its Finding 2a with respect to Other Work Equipment.

Basis of Appeal

Fair Market Value is the Most Accurate Method to Determine Other Work Equipment Expense

USAC has rejected all the lease payments made by Walnut Hill to TTI because such payments were not based on fully distributed cost. However, it is not reasonable to expect a small company such as Walnut Hill to purchase the Other Work Equipment identified on Attachment A because this equipment is capital intensive and it would not be economic for a small company to do so.

Moreover, as shown in Attachment A, the most reasonable and economic course for Walnut Hill was to lease this equipment from TTI. As shown in Attachment A, in most cases, Walnut Hill would have been charged a lease rate greater than the rate it paid if Walnut Hill had leased this equipment from a third-party vendor. Further, even though the lease rate paid by Walnut Hill was greater than the third-party rate for a few items of equipment, overall Walnut Hill's lease expense was significantly reduced by leasing the equipment from TTI. Walnut Hill obtained the third-party lease rates from Mr. Jimmy Kuykendall of Equipment World Inc., by letter dated June 22, 2010, which is attached hereto as Attachment B. Therefore, by obtaining a discounted lease rate from TTI for most of the equipment, Walnut Hill was able to significantly reduce its lease expense for Other Work Equipment.

Accordingly, the Commission's rule should not be applied in this case. Walnut Hill requests USAC to consider its fair market value data and issue a revised finding.

II. Conclusion

Based on the foregoing, Walnut Hill asks USAC to revise its findings as discussed herein.

Respectfully submitted,
WALNUT HILL TELEPHONE COMPANY

By Benjamin H. Dickens, Jr. /mjs
Benjamin H. Dickens, Jr.
Its Attorney

		Monthly Lease Rate	Annual Lease	3rd-Party Lease Rate	Annual Lease
T-65	TAMPER	150.00	1,800.00	\$ 500.00	6,000.00
T-121	FREIGHTLINER	943.94	11,327.28	\$ 2,000.00	24,000.00
T-41	KW BY DAY	2,599.00	31,188.00	\$ 4,000.00	48,000.00
T-30 & T-31	TRAILERS (2)	1,200.00	14,400.00	\$ 1,200.00	14,400.00
T-01	TILTBED	500.00	6,000.00	\$ 600.00	7,200.00
T-21	D6 CAT	7,800.00	93,600.00	\$ 6,500.00	78,000.00
T-23	BACKHOE	1,800.00	21,600.00	\$ 2,250.00	27,000.00
T-45	LOWBOY	300.00	3,600.00	\$ 1,500.00	18,000.00
T-48	CASE DOZER	1,800.00	21,600.00	\$ 2,250.00	27,000.00
T-49	D7G DOZER	7,800.00	93,600.00	\$ 9,000.00	108,000.00
T-52	D7G DOZER	7,800.00	93,600.00	\$ 9,000.00	108,000.00
T-60	CHIPPER	450.00	5,400.00	\$ 500.00	6,000.00
T-51	D7G DOZER	7,800.00	93,600.00	\$ 9,000.00	108,000.00
T-66	JD DOZER	1,800.00	21,600.00	\$ 4,500.00	54,000.00
T-27	580SL BACKHOE	1,800.00	21,600.00	\$ 2,250.00	27,000.00
T-42	T420 MAC	3,000.00	36,000.00	\$ 2,000.00	24,000.00
T-163	CAT GEN AT BRADLEY	1,450.00	17,400.00	\$ 2,000.00	24,000.00
T-164	CAT GEN AT WINTROP	1,450.00	17,400.00	\$ 2,000.00	24,000.00
T-146 thru T148	G6100R GENERATOR (3)	4,050.00	48,600.00	\$ 2,250.00	27,000.00
T-150 & T-151	ONAN PRO5000E (2)	2,700.00	32,400.00	\$ 1,500.00	18,000.00
T-152 thru T-155	CRAFTSMAN 4200 (4)	4,200.00	50,400.00	\$ 3,000.00	36,000.00
T-38	475 CASE	1,800.00	21,600.00	\$ 4,500.00	54,000.00
T-25	BACKHOE 580K	1,800.00	21,600.00	\$ 2,250.00	27,000.00
T-68	BACKHOE 580K	1,800.00	21,600.00	\$ 2,250.00	27,000.00
T-36	450 DOZER	1,800.00	21,600.00	\$ 4,500.00	54,000.00
T-06	TRENCHER 8500 VERMEER	3,750.00	45,000.00	\$ 4,500.00	54,000.00
T-77	REEL TRAILER	300.00	3,600.00	\$ 600.00	7,200.00
T-33	MAXI SNEAKER	1,350.00	16,200.00	\$ 1,750.00	21,000.00
T-113	BELSHE TRAILER	325.00	3,900.00	\$ 600.00	7,200.00
T-114	BELSHE TRAILER SM	300.00	3,600.00	\$ 600.00	7,200.00
T-70	LOCATOR	145.00	1,740.00	\$ 250.00	3,000.00
T-71	DW ROD PUSHER	350.00	4,200.00	\$ 500.00	6,000.00
T-78	DW W/DIGGING ATT	3,750.00	45,000.00	\$ 4,500.00	54,000.00
T-81	MARLOW MUD PUMP	300.00	3,600.00	\$ 500.00	6,000.00
T-72	BLUE TRAILER & T32	700.00	8,400.00	\$ 1,500.00	18,000.00
T-123	D4 CAT	7,800.00	93,600.00	\$ 4,500.00	54,000.00
		87,662.94	1,051,955.28	101,100.00	1,213,200.00



June 22, 2010

Johnny Ross
Townes Telecommunications, Inc.
120 East 1st Street
Lewisville, AR 71845

Dear Johnny:

Per your request, I have researched rental rates from the 2004-5 time frame. Please review the table below. If there is anything else I can do, please let me know.

ITEM DESCRIPTION	SIZE CLASS	WEEKLY RATE	MONTHLY RATE	HOURLY RATE	APPLICABLE EQUIPMENT (T #s)
AUTOMOBILES					
Small Truck / SUV	GVWR < 6,000 LB	\$175	\$500		58, 88, 26, 86, 14, 59, 62, 88
Full Size Truck / SUV	GVWR 6-8,000 LB	\$285	\$850		10, 98, 89, 141
3/4 Ton Truck	GVWR 8-10,000 LB	\$350	\$1,000		40
1 Ton Truck	GVWR >10,000 LB	\$425	\$1,250		90, 115
TRUCKS / TRAILERS					
Truck Tractor	GVWR >50,000 LB	\$675	\$2,000		121, 41, 42,
Lowboy Trailer	GVWR 70-110,000 LB	\$500	\$1,500		45
Utility Trailer	GVWR <20,000 LB	\$200	\$600		01, 31, 113, 114,
* Truck Tractor w/ Lowboy (operator & fuel)				\$200	41
HEAVY EQUIPMENT					
Large Crawler Tractor / Bulldozer	200 HP / 45,000 LB	\$2,850	\$9,000		51, 52
Medium Crawler Tractor / Bulldozer	140 HP / 35,000 LB	\$2,200	\$6,500		21
Small Crawler Tractor / Bulldozer	80 HP / 25,000 LB	\$1,500	\$4,500		66, 38, 36, 123
Loader / Backhoe	80 HP / 20,000 LB	\$750	\$2,250		69, 54, 25, 23,
GENERATORS					
Diesel-Powered, Trailer-Mounted	40-60 KW	\$675	\$2,000		157, 158
Gas-Powered Portable	<10 KW	\$250	\$750		146, 150, 152
TRENCHERS					
Diesel-Powered, Self-Propelled	70-90 HP	\$1,500	\$4,500		08, 84
Diesel-Powered, Self-Propelled	<70 HP	\$585	\$1,750		07
MISCELLANEOUS					
Plate Vibrator		\$175	\$500		65
Chipper		\$175	\$500		60
Locator		\$85	\$250		122
Rod Pusher		\$175	\$500		71
Mud Pump		\$175	\$500		81

Thank you,

Jimmy
Jimmy Kuykendall

APPENDIX D



Universal Service Administrative Company

Administrator's Decision on High Cost Program Beneficiary Appeal

Via Email and Certified Mail

October 24, 2011

Deborah Nobles
Townes Telecommunications Services Corporation
505 Plaza Circle, Suite 200
Orange Park, FL 32073-9409

Re: Appeal of the 2009 FCC Office of Inspector General USF Audit Improper
Payment Information Act (IPIA) Audit of High Cost Program Beneficiary:
Walnut Hill Telephone Company (SAC 401729), Follow-up Audit Report HC-
2009-FL-056 for Audit Report HC-2007-166

Dear Ms. Nobles:

The Universal Service Administrative Company (USAC) has reviewed the appeal you filed on behalf of Walnut Hill Telephone Company (Walnut Hill), dated November 29, 2010, concerning USAC's decision to recover \$447,967 in previously paid High Cost Program support disbursed for the 12-month period ending June 30, 2007. The recovery amount was determined by an audit of Walnut Hill conducted by KPMG LLP, under the FCC Office of Inspector General (OIG) Universal Service Fund (USF) audit program.

Walnut Hill appealed the results of finding HC2009FL056-F02(a) and requested that USAC rescind its decision to recover this support by waiving the applicable FCC rule. USAC is not authorized to waive Commission rules.

Decision on Appeal: Denied. USAC has determined that \$447,967 should be recovered.

Discussion

Walnut Hill makes equipment lease payments to its parent company, TTI. As part of the audit, it was determined that some of these expenses were unsupported. In addition, these payments did not comply with FCC rules that state that affiliate transactions must be recorded on a fully distributed cost basis. Walnut Hill, in its appeal, maintained that it was reasonable to lease the equipment from the parent company because if Walnut Hill had not leased from TTI, it would not have been able to afford leasing equipment from a

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third party vendor. Walnut Hill further asserted that the use of the fair market value is appropriate in this case and asked that the FCC rule not be applied.¹

HC2009FL056-F02--Unsupported and Inappropriately Classified Expenses

In this finding, 30 exceptions were identified relating to lease payments. Of these exceptions, 26 were identified as not having supporting documentation. In addition, these lease payments were not in compliance with FCC regulations governing affiliate transactions since they were determined using the fair market value method and not recorded on a fully distributed cost basis.²

Walnut Hill asserted that the company is too small to record services at fully distributed cost and leases its equipment from its parent company at fair market value. In its appeal, Walnut Hill provided an attachment that outlines what its lease payments are in comparison to what a third party lease rate would be.³ Walnut Hill pointed out that leasing from TTI is cheaper than leasing from a third-party vendor in most cases and concluded its appeal by requesting that USAC consider allowing the use of the fair market value instead of applying the FCC rule on affiliate transactions.

While USAC does not dispute Walnut Hill's assertion concerning its lease expense, 47 C.F.R. § 32.27(c)(3) specifies that "services received by a carrier from its affiliate(s) that exist solely to provide services to members of the carrier's corporate family shall be recorded at fully distributed cost."⁴ USAC recognizes the carrier's assertion that it may "have been charged a lease rate greater than the rate it would have paid if [it] had leased this equipment from a third-party vendor"⁵ other than TTI. However, as KPMG stated in the audit report, TTI provides vehicle and equipment lease services solely to the beneficiary,⁶ therefore the carrier is obligated to follow the requirements of 47 C.F.R. § 32.27(c)(3), which obligate it to record the lease expense at the fully distributed cost.

Walnut Hill's appeal did not dispute its non compliance with 47 C.F.R. § 32.27(c)(3). Rather, Walnut Hill's requested that USAC consider "[Walnut Hill's] fair market value

¹ Letter from Benjamin H. Dickens, Jr. of Blooston, Mordkofsky, Dickens, Duffy & Prendergast, LLP for Walnut Hill Telephone Company to High Cost and Low Income Division, USAC, dated Nov. 29, 2010, page 3 (*Walnut Hill Appeal Letter*).

² Letter and Independent Accountants Report No. HC-2009-FL056 from KPMG LLP to Walnut Hill Telephone Company, dated Aug. 4, 2010, page 2 (*Independent Accountants Report*).

³ *Walnut Hill Appeal Letter*, Attachment A.

⁴ 47 C.F.R. § 32.27(c)(3) ("*Threshold*. For purposes of this section, carriers are required to make a good faith determination of fair market value for a service when the total aggregate annual value of that service reaches or exceeds \$500,000 per affiliate. When a carrier reaches or exceeds the \$500,000 threshold for a particular service for the first time, the carrier must perform the market valuation and value the transaction in accordance with the affiliate transactions rules on a going-forward basis. All services received by a carrier from its affiliate(s) that exist solely to provide services to members of the carrier's corporate family shall be recorded at fully distributed cost.").

⁵ *Walnut Hill Appeal Letter*, page 3.

⁶ *Independent Accounts Report*, page 16.

Ms Deborah Nobles
Walnut Hill Telephone Company
October 24, 2011
Page 3 of 3

data”⁷ in contravention of the Commission rule discussed above. USAC is not authorized to waive FCC rules. Therefore, USAC hereby denies the appeal and will recover \$447,967 in High Cost Support.

USAC Action and Walnut Hill Appeal Rights

In its appeal letter to USAC, Walnut Hill did not appeal the results of HC2009FL056-F01 with a monetary effect of \$784,041, HC2009FL056-F03 with a monetary effect of \$312,309, HC2009FL056-F04 with a monetary effect of \$53,351, HC2009FL056-F05 with a monetary effect of \$33,252, HC2009FL056-F06 with a monetary effect of \$6,600 and HC2009FL056-C01 with a monetary effect of \$282.⁸ These amounts have been recovered.

USAC hereby denies Walnut Hill’s appeal and will recover of \$447,967 in previously paid High Cost Program support within sixty (60) days of the receipt of this decision through the monthly disbursement process. If the recovery amount exceeds the current month’s disbursement, USAC will continue to net the recovery amount against subsequent monthly disbursements. USAC also reserves the right in its discretion and at anytime to issue an invoice to Walnut Hill for all or a portion of the amount to be recovered. If any further errors are found in Walnut Hill’s reporting for the period under audit herein, USAC reserves the right to recover the financial impact of those deviations.

If you wish to appeal this decision, you may file an appeal pursuant to the requirements of 47 C.F.R. Part 54 Subpart I. Detailed instructions for filing appeals are available at <http://www.usac.org/hc/about/filing-appeals.aspx>. Submitting a waiver to the FCC follows the same process as filing an appeal with the FCC.

//s// Universal Service Administrative Company

⁷ Walnut Hill Appeal Letter, page 3.

⁸ Walnut Hill Appeal Letter, page 2.

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December 20, 2011

FILED/ACCEPTED

DEC 20 2011

Federal Communications Commission
Office of the Secretary

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VIA HAND DELIVERY

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street SW
Washington, DC 20554

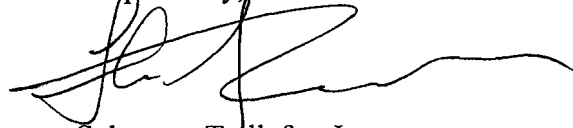
RE: Request for Review by Walnut Hill Telephone Company of a Decision of the Universal Service Administrator and Petition for Waiver
CC Docket No. 96-45

Dear Ms. Dortch:

Pursuant to sections 1.3, 32.18, 54.719 and 54.722 of the Commission's rules,¹ Walnut Hill Telephone Company hereby submits an original and four copies of its Request for Review by Walnut Hill Telephone Company of a Decision of the Universal Service Administrator and Petition for Waiver.

Please do not hesitate to contact the undersigned if there are any questions regarding this filing.

Respectfully,



Salvatore Tallefer, Jr.

¹ 47 CFR 1.3, 47 CFR 32.18, 47 CFR 54.719, & 47 CFR 54.722.

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